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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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JUN 26 1997

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
Access Charge Reform)	CC Docket No. 96-262
)	
Price Cap Performance Review for Local Exchange Carriers)	CC Docket No. 94-1
)	
Transport Rate Structure and Pricing)	CC Docket No. 92-213
)	
Usage of the Public Switched Network By Information Service and Internet Access Providers)	CC Docket 96-263
)	

MCI COMMENTS
ON
FURTHER NOTICE OF PROPOSED RULEMAKING

Bradley Stillman
Don Sussman
Alan Buzacott
MCI Communications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

June 26, 1997

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Summary

The proposal in the Further Notice which would assess the new primary interexchange carrier charge (PICC) on special access lines is surprising and troubling. This proposal seems completely contrary to the Commission's stated goal of creating a more economically rational system for interstate access charges. It also runs counter to the statutory mandate that the Commission make implicit subsidies explicit to the extent possible by creating an entirely new implicit subsidy which would artificially raise the cost of special access service to the detriment of customers. In the second part of these comments, MCI explains its support for the proposal to reassign part of the general support facilities costs to billing and collection and provides comments on the proposals put forth by the Commission.

Since the intent of the PICC is to recover that portion of the line between the end user and the central office switch that is not recovered through the SLC, it would be contrary to the stated purpose of the PICC to apply it to a service that is completely separate and distinct -- such as a special access line. In short, the Commission's proposal would have special access customers pay for a portion of the loop (through a PICC) even though the service does not use the loop.

Special access services are generally installed for specific business purposes. For example, for long distance outbound, toll-free inbound terminations, private lines, etc. By further raising these rates, the FCC effectively assumes that all dedicated access exists strictly to "rob" switched access from the incumbent LECs. Of course, this is simply not the case, especially for those customers currently using the service.

If the Commission wants to encourage competition in all telecommunications markets, as was clearly intended by Congress, then it must ensure that rates reflect cost. If rates do not reflect cost, at a minimum they should move towards cost. Allowing incumbent LECs to assess PICCs on special access lines simply creates a new implicit subsidy for the incumbent LEC, insulates incumbent LEC prices from competitive forces, and moves rates that have been influenced by emerging competition, further away from cost.

The Commission should reassign GSF costs to billing and collection for three main reasons. First, the recovery of costs resulting from the provision of billing and collection services through interstate access services violates the Section 254(k) prohibition against cross-subsidy and is inconsistent with the Commission's longstanding objective of ensuring that customers of regulated services are not subsidizing potentially competitive services.

Second, the effects of the misallocation of GSF costs have recently become more pronounced. As a result, a separations rule change involving expenses associated with billing and collection -- a detariffed service -- had the effect of increasing interstate access charges by approximately \$65 million (see Attachment). This anomalous outcome shows the need for the Commission to amend the Part 69 rules governing GSF costs.

Third, amendment of the Part 69 rules is required to ensure that the LECs do not continue to recover GSF costs associated with billing and collection even if interexchange carriers take back billing and collection from the LECs. Absent Commission action, these misassigned costs will continue to be reflected in LEC PCIs even if the IXCs no longer use LEC billing and collection services. Thus, in order to remove misassigned GSF costs from current and future indices, an immediate PCI adjustment is required.

The Commission's proposal to use a special study has several deficiencies. First, it focuses only on general purpose computer-related GSF investment in Account 2124. The LECs' billing and collection operations use not only computer-related GSF investment, but also buildings, furniture, office equipment, and other investment in Account 2110. Second, the Commission's audit proposal does not cure the inherent weaknesses of using special studies. The LECs themselves have admitted that any special studies to allocate GSF costs would be arbitrary.

The better alternative is for the Commission to avoid the pitfalls of the special study approach by adopting its expense-based allocator proposal. The expenses directly assigned to billing and collection by the Part 69 rules would provide a reasonable proxy for the level of investment associated with billing and collection.

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**MCI COMMENTS
ON
FURTHER NOTICE OF PROPOSED RULEMAKING**

I. Introduction

MCI hereby submits its comments in the above referenced docket.¹ The proposal in the Further Notice which would assess the new primary interexchange carrier charge (PICC) on special access lines is surprising and troubling. This proposal seems completely contrary to the Commission's stated goal of creating a more economically rational system for interstate access

¹ In the Matter of Access Charge Reform, CC Docket No. 96-262; Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1; Transport Rate Structure and Pricing, CC Docket No. 91-213, Usage of the Public Switched Network by Information Service and Internet Access Providers, CC Docket No. 96-263, Further Notice of Proposed Rulemaking, FCC 96-488, released December 24, 1996 (Further Notice).

charges.² It also runs counter to the statutory mandate that the Commission make implicit subsidies explicit to the extent possible³ by creating an entirely new implicit subsidy which would artificially raise the cost of special access service to the detriment of customers.⁴ In the second part of these comments, MCI explains its support for the proposal to reassign part of the general support facilities costs to billing and collection and provides comments on the proposals put forth by the Commission.

II. Assessing PICC's on Special Access is Anticompetitive, Arbitrary and Against the Clear Intent of the 1996 Act

Under the existing rate structure, incumbent local exchange carriers (incumbent LECs) recover the cost of the loop through a flat-rated charge (the subscriber line charge or SLC) assessed on the end user, and a per-minute

² See e.g., Further Notice at 30. "This 'patchwork quilt of implicit and explicit subsidies' generates inefficient and undesirable economic behavior.." Id. at 36. "In general, NTS costs incurred to serve a particular customer should be recovered through flat fees, while traffic sensitive costs should be recovered through usage-based rates. The present structure [of access charges] violates this basic principle of cost causation."

³ Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996 Act), to be codified at 47 U.S.C. §§ 151 et. seq.

⁴ MCI believes the Commission's orders on access reform, LEC price caps and universal service do not adequately identify and eliminate explicit subsidies from the system.

charge (the Common Carrier Line or CCL) assessed on the interexchange carrier (IXC). In the Further Notice, the Commission determined that the existing per-minute CCL charge did not permit incumbent LECs to recover the loop costs in the manner in which they were incurred. It therefore ordered incumbent LECs to transition to a system which will recover the cost of the loop not recovered by the SLC through a flat, per-line charge, the PICC.

In the Further Notice, the Commission requests comment on whether incumbent LECs should be permitted to impose a PICC on special access lines.⁵ Since the intent of the PICC is to recover that portion of the line between the end user and the central office switch that is not recovered through the SLC, it would be contrary to the stated purpose of the PICC to apply it to a service that is completely separate and distinct -- such as a special access line. In short, the Commission's proposal would have special access customers pay for common line facilities that they do not use.

The Commission tentatively concludes in the Further Notice that it may be necessary to apply the PICC to a special access line because, absent such a policy, larger business customers may migrate to special access lines from switched access lines to avoid the PICC.⁶ This reasoning is seriously flawed for a number of reasons. First, it represents a far too simplistic view of what

⁵ Further Notice at 397.

⁶ Further Notice at 402

motivates a customer to move from switched to special access. Furthermore, this reasoning is completely speculative. There is no evidence that switched access customers will migrate to special access simply to avoid the PICC.

Second, if the Commission's fears are correct, it merely illustrates a fault in the Commission's overall access policy -- that switched access charges remain artificially high. A logical response, especially since the Commission recognizes that access rates are far above economic cost and wants to market to drive them down, would be to allow the market to work and hope that pressure from special access would help achieve the goal of forcing down switched access rates. The proposal in the Further Notice, however, would add insult to injury by instead forcing large access customers, including all those that purchase special access from incumbent LECs today, to pay artificially higher access charges simply to subsidize the incumbent LEC.

A. Lack of PICC's on Special Access Will Not Lead to Uneconomic Migration Away From Switched Access

Special access services are generally installed for specific business purposes. For example, for long distance outbound, toll-free inbound terminations, private lines, etc. By further raising these rates, the FCC effectively assumes that all dedicated access exists strictly to "rob" switched access from the incumbent LECs. Of course, this is simply not the case, especially for those customers currently using the service. While special access may be the most

economic choice for heavy user of interstate services, special access also provides services and features that RBOCs/LECs cannot or have chosen not to provide. In essence, this proposal, which is nothing more than a misguided attempt to keep the incumbent LECs whole, unfairly penalizes special access customers.

Additionally, in order to justify purchasing special access from a rate crossover perspective, customers must not only have enough traffic to justify the change (typically in the magnitude of several thousand dollars of interexchange traffic per month), they must calculate the effect of significant nonrecurring installation costs, distance sensitive charges, and whether the customer has the necessary customer premise equipment on location.

Indeed, special access is often not a cost tradeoff decision with switched access, but rather a means to obtain other services such as frame relay, private line, Internet, video, and access to advance features.

B. The Commission Should Not Create New Implicit Subsidies Which Lead to Uneconomic Behavior in the Marketplace

If the Commission were to allow incumbent LECs to assess a PICC on special access, it would create an unnecessary implicit access subsidy with, special access customers to paying SLCs and PICCs on their switched access lines, and PICCs on special access lines. All of this revenue is unjustified and amounts to greater monopoly profits for the LEC, at the expense of the end user.

The Commission should not depart from the clear intent of Congress -- to establish cost-based rates and explicit subsidies⁷ -- especially in a situation as we have here where no compelling evidence exists for such a departure. The Commission should not rely on a speculative concern as an excuse to create an economically irrational policy.

If the Commission were to assess PICCs on special access lines simply to inflate the cost of special access lines compared to switched access lines, they would be adding to industry inefficiencies, rather than remedying the situation. The Commission pointed out in the Further Notice that an "inefficient system of access charges retards job creation and economic growth in the nation."⁸ Such market distortions would also increase the risk of uneconomic entry, thereby further delaying the benefits of effective competition.

In the Further Notice, the Commission recognizes that Congress intended that implicit subsidies would be replaced with "explicit subsidies."⁹ However, it determined that the process for eliminating implicit subsidies from access charges over time rather than through a prescriptive reduction is warranted primarily for three reasons: (1) when the Commission does not have the tools to identify existing subsidies; (2) when the Commission believes the market can

⁷ See, Joint Explanatory Statement of the Committee of the Conference, S. Conf. Rep. No. 230, 104th Cong., 2d Sess. 131 (1996).

⁸ Further Notice at 14.

⁹ Further Notice at 9

best identify implicit subsidies; and (3) when eliminating subsidies might have an inequitable impact on the incumbent LECs.¹⁰

While MCI continues to believe the goal of increased competition and the public interest would be best served by immediately reducing access to cost, clearly, none of these preconditions outlined by the Commission justify the assessment of the PICC on special access lines. In assessing the PICC on special access lines, the Commission is contemplating the establishment of a new, quantifiable and identifiable implicit subsidy. It is not contemplating how to evaluate existing implicit subsidies.

If the Commission wants to encourage competition in all telecommunications markets, as was clearly intended by Congress, then it must ensure that rates reflect cost. If rates do not reflect cost, at a minimum they should move towards cost. Allowing incumbent LECs to assess PICCs on special access lines simply creates a new implicit subsidy for the incumbent LEC, insulates incumbent LEC prices from competitive forces, and moves rates that have been influence by emerging competition, further away from cost.

One year after the passage of the Telecommunications Act, rate payers have yet to experience the benefits of local competition -- lower prices and greater choices -- aside from some very modest access reductions. If the incumbent LECs are permitted to assess PICCs on special access lines, special

¹⁰ Further Notice at 9.

access customers will experience immediate rate increases, and switched access rate reductions will be further delayed. While a new system of implicit subsidies may be in the interest of some carriers because it would create an opportunity to raise the cost of special access, and the profit margins of the companies, it is surely not to the advantage of their customers. Furthermore any system that artificially raises the cost to customers and introduces a new source of implicit subsidies to the access system by assessing PICCs on special access lines, is clearly not in the public interest.

III. GSF Investment Should Be Reallocated

In the Further Notice, the Commission solicits comments on a proposal to amend the Part 69 rules to ensure that an appropriate portion of general support facility (GSF) investment and expense is recovered through billing and collection.¹¹ The Commission notes that, under its current Part 69 rules, no GSF investment or expense is allocated to billing and collection, despite the fact that the LECs' billing and collection operations make use of land, buildings, computers, and other support facilities. As a result, the costs of general support facilities used to provide billing and collection services are recovered through interstate access charges. In the Further Notice, the Commission tentatively concludes that price cap LECs' general purpose computer costs attributable to

¹¹ Further Notice at 407-418.

billing and collection should not be recovered through regulated access charges, and proposes two options for reassigning GSF costs to billing and collection.

A. GSF Costs Should Be Assigned to Billing and Collection

The Commission has been aware of the potential misallocation caused by the Part 69 rules governing the assignment of GSF costs since 1987. In the Part 69 Conformance Reconsideration Order, the Commission noted that \$180 million in GSF-related revenue requirements had shifted from billing and collection to the access elements in the LECs' October 2, 1987 access filing.¹² The Commission declined, however, to modify the new Part 69 rules to rectify this cost shift because it determined that AT&T was replacing local exchange carrier billing and collection services with its own billing mechanisms.¹³ The Commission concluded that "[i]f exchange carriers do not obtain a significant amount of other third party billing and collection business, the apportionment of costs between the access elements and the billing and collection category will not have a great deal of long term significance."¹⁴

¹² In the Matter of Amendment of Part 69 of the Commission's Rules and Regulations, Access Charges, To Conform It With Part 36, Jurisdictional Separations Procedures, Order on Reconsideration, 4 FCC Rcd 765, 768-769 (Part 69 Conformance Reconsideration Order).

¹³ Id. at 769.

¹⁴ Part 69 Conformance Reconsideration Order, 4 FCC Rcd at 769.

The over allocation of GSF costs to the access elements has not, however, been a short term problem. The LECs continue to perform billing and collection functions for a broad range of interexchange carrier (IXC) services, and reported over \$800 million in billing and collection revenues in 1995. Because LECs continue to provide billing and collection services, they continue to incur associated GSF costs. However, the current Part 69 rules assign none of these GSF costs to billing and collection. Instead, the GSF costs associated with the LECs' billing and collection operations are recovered through switched access rates.

The Commission should reassign GSF costs to billing and collection for three main reasons. First, the recovery of costs resulting from the provision of billing and collection services through interstate access services violates the Section 254(k) prohibition against cross-subsidy and is inconsistent with the Commission's longstanding objective of ensuring that customers of regulated services are not subsidizing potentially competitive services.¹⁵ To prevent the LECs' cross-subsidization of billing and collection, a potentially competitive service, with interstate access revenues, the Commission should ensure that an appropriate portion of GSF costs are allocated to billing and collection.

¹⁵ See, e.g., In the Matter of Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, Report and Order, 2 FCC Rcd 1298.

Second, the effects of the misallocation of GSF costs have recently become more pronounced. In the OB&C Order, the Commission changed the separations rules to require LECs to allocate one-third of their Other Billing and Collection (OB&C) expenses to the interstate jurisdiction.¹⁶ For most LECs, the adoption of the one-third allocator resulted in an increase in OB&C expenses allocated to interstate. Through the operation of the Commission's Part 36 rules, this increase in interstate-allocated OB&C expenses also led to an increase in the GSF investment and expense allocated to interstate. The current Part 69 rules then assigned all of these additional GSF costs to the access categories and none to billing and collection. As a result, a separations rule change involving expenses associated with billing and collection -- a detariffed service -- had the effect of increasing interstate access charges by approximately \$65 million (see Attachment). This anomalous outcome shows the need for the Commission to amend the Part 69 rules governing GSF costs.

Third, amendment of the Part 69 rules is required to ensure that the LECs do not continue to recover GSF costs associated with billing and collection even if interexchange carriers take back billing and collection from the LECs. In part, the Commission's 1987 decision not to correct the misassignment of GSF costs rested on its conclusion that the misassignment was a temporary problem.

¹⁶ In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Report and Order, 12 FCC Rcd 2679 (OB&C Order).

Under the system of rate of return regulation then in effect, any change in GSF costs that resulted from a decline in the LECs' billing and collection operations would translate into a reduced revenue requirement for interstate access services. Under price cap regulation, however, the misallocation of GSF costs is potentially a permanent problem. The misassigned GSF costs associated with billing and collection were reflected in the LECs' PCIs at the inception of price cap regulation in 1990. Absent Commission action, these misassigned costs will continue to be reflected in LEC PCIs even if the IXCs no longer use LEC billing and collection services. Thus, in order to remove misassigned GSF costs from current and future indices, an immediate PCI adjustment is required.

B. The Commission's Proposals

The Commission seeks comment on two options for reassigning GSF costs to the billing and collection category. The Commission's first proposal would require the LECs to perform a special study to determine the percentage of the investment in Account 2124 that is used for billing and collection activities.¹⁷ The dollar amount so identified would be attributed directly to the billing and collection category, while the remainder of the interstate portion of Account 2110 would be apportioned among the access elements and the interexchange category using the current investment allocator. The Commission

¹⁷ Further Notice at 415.

proposes to subject the study methodology to the same independent audit requirement as other regulated and nonregulated cost allocations.¹⁸

The Commission's second proposal would modify Section 69.307 of its rules to require use of a general expense allocator to allocate the interstate portion of Account 2110 between the billing and collection category and the other categories.¹⁹ The Commission proposes to allocate GSF investment using the "Big Three Expense" allocator, but modified to exclude any accounts that are themselves allocated on the basis of GSF investment. GSF expenses in Account 6120 would then be apportioned among all elements on the basis of the overall apportionment of GSF investment.

The Commission's proposal to use a special study has several deficiencies. First, it focuses only on general purpose computer-related GSF investment in Account 2124. The LECs' billing and collection operations use not only computer-related GSF investment, but also buildings, furniture, office equipment, and other investment in Account 2110. Any modification to Part 69 should recognize that the LECs' billing and collection operations make use of these assets, and should assign an appropriate portion of these costs to billing and collection. At a minimum, the LECs should also be required to conduct special studies to determine the fraction of investment in Account 2121,

¹⁸ Further Notice at 416.

¹⁹ Further Notice at 417.

Buildings, and Account 2123, Office Equipment, that are associated with billing and collection operations.

Second, the Commission's audit proposal does not cure the weaknesses inherent in using special studies. The LECs themselves have admitted that any special studies to allocate GSF costs would be arbitrary. In the 1987 Part 69 Conformance proceeding, USTA argued that an AT&T proposal to use a special study to assign computer investment among the Part 69 categories was unworkable. USTA stated that "[t]he data necessary to determine the use of computers for specific accounting purposes, such as billing and collection is not provided for in Part 32" and went on to argue that "[w]ithout specific accounting data, any identification required in Part 69 would be beyond the requirements deemed necessary in Part 32, and arbitrary."²⁰ This core deficiency cannot be cured, and the Commission's proposed audit requirement would therefore function only to detect the worst abuses.

If the Commission does choose to adopt a special study approach, it should require the price cap LECs to submit their study methodology and proposed cost reassignment for approval by the Commission prior to the filing of any PCI changes resulting from the reassignment of costs. The fifteen-day notice period prescribed for tariff filings under Section 204(a)(3) of the Act would not provide sufficient time for the Commission or interested parties to review the

²⁰ CC Docket No. 87-113, Opposition of United States Telephone Association to Petitions for Reconsideration, December 8, 1987, pp. 4-5.


cost support data. In order to ensure that the study methodology approval process does not delay the access charge reductions, the PCI changes should include a temporary true up amount to recognize the reductions that would have occurred had the PCI changes been implemented on the effective date of the order.

The better alternative is for the Commission to avoid the pitfalls of the special study approach by adopting its expense-based allocator proposal. The expenses directly assigned to billing and collection by the Part 69 rules would provide a reasonable proxy for the level of investment associated with billing and collection. Further, this approach is consistent with the current Part 69 rules' reliance on Class B accounts to assign costs among the categories. The allocator used to determine the exogenous cost changes resulting from the rule change should be based on 1996 ARMIS data restated to reflect the effects of the OB&C Order.

IV. Conclusion

Wherefore, MCI urges the Commission to abandon attempts to assess a PICC on special access lines and remove GSF costs from interstate access in a manner consistent with the foregoing comments.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Bradley Stillman', with a long, sweeping horizontal line extending to the right.

Bradley Stillman
Don Sussman
Alan Buzacott
MCI Communications Corporation
1801 Pennsylvania Avenue, N.W.
Washington, D. C. 20006

June 26, 1997

Attachment: Exogenous Cost Increases Resulting From the OB&C Order

	AMTR	BATR	BSTR	NXTR	PTCA	PTNV	SWTR	USTR	GTE	SPRINT	TOTAL
CL	2,066,029	(2,156,728)	3,593,337	894,020	7,751,730	43,072	1,234,000	1,065,592	16,981,588	1,299,114	32,771,754
TS	419,575	593,000	551,225	326,347	1,432,909	21,857	231,000	1,164,488	5,277,214	327,993	10,345,608
Trunking	1,325,299	1,979,000	1,540,524	1,089,216	3,756,325	31,230	801,000	3,682,197	5,992,433	540,676	20,737,900
TOTAL	3,810,903	415,272	5,685,086	2,309,583	12,940,964	96,159	2,266,000	5,912,277	28,251,235	2,167,783	63,855,262

Sources: Annual Access Filings, Bell Atlantic Transmittal No. 959, Ameritech May 1, 1997 Letter Filing

CERTIFICATE OF SERVICE

I, John E. Ferguson III, do hereby certify that copies of the foregoing Comments of MCI on the Further Notice of Proposed Rulemaking were sent, on this 26th day of June, 1997, via first-class mail, postage pre-paid, to the following:

Reed E. Hundt**
Chairman
Federal Communications Commission
Room 814
1919 M Street, NW
Washington, DC 20054

Regina Keeney**
Chief, Common Carrier Bureau
Federal Communications Commission
Room 500
1919 M Street, NW
Washington, DC 20054

Rachelle E. Chong**
Commissioner
Federal Communications Commission
Room 844
1919 M Street, NW
Washington, DC 20054

James H. Quello**
Commissioner
Federal Communications Commission
Room 802
1919 M Street, NW
Washington, DC 20054

Susan P. Ness**
Commissioner
Federal Communications Commission
Room 832
1919 M Street, NW
Washington, DC 20054

Richard Welch**
Federal Communications Commission
Common Carrier Bureau
Policy and Program Planning Division
1919 M Street, NW
Room 544
Washington, DC 20054

Kathy Levitz**
Federal Communications Commission
Deputy Chief, Common Carrier Bureau
1919 M Street, NW
Room 500
Washington, DC 20054

Jane Jackson**
Federal Communications Commission
Common Carrier Bureau
1919 M Street, NW
Washington, DC 20054

Joseph Farrel**
Federal Communications Commission
Chief Economist
1919 M St., NW
Washington, DC 20054

John Nakahata**
Federal Communications Commission
Office of General Counsel
1919 M Street, NW
Washington, DC 20054

James Casserly**
Federal Communications Commission
Room 832
1919 M Street, NW
Washington, DC 20054

Blair Levin**
Federal Communications Commission
Room 814
1919 M Street, NW
Washington, DC 20054

Daniel Gonzales**
Federal Communications Commission
Room 844
1919 M Street, NW
Washington, DC 20054

Jim Lathrop**
Federal Communications Commission
1919 M Street, NW
Washington, DC 20054

Kathleen Q. Abernathy
David A. Gross
AirTouch Communications, Inc.
1818 N Street, N.W.
Washington, DC 20036

Pamela J. Riley
AirTouch Communications, Inc.
One California Street, 9th Floor
San Francisco, CA 94111

Mary Newmeyer
Alabama Public Service Commission
P.O. Box 991
Montgomery, AL 36101

Scott L. Smith
Alaska Telephone Association
4341 B Street, Suite 304
Anchorage, AK 99503

Carol C. Henderson
American Library Association
1301 Pennsylvania Avenue, NW Suite 403
Washington, DC 20004

Michael S. Pabian
Larry A. Peck
Counsel for Ameritech
2000 West Ameritech Center Drive,
Room 4H82
Hoffman Estates, IL 60196-1025

Gene C. Schaerr
David L. Lawson
Scott M. Bohannon
AT&T Corp.
1722 Eye Street, N.W.
Washington, D.C. 20006

Mark C. Rosenblum
Peter H. Jacoby
Judy Sello
AT&T Corp.
295 North Maple Avenue, Room 3245G1
Basking Ridge, New Jersey 07920

Jeffrey F. Beck
Jillisa Bronfman
Beck & Ackerman
Four Embarcadero Center, Suite 760
San Francisco, CA 94111

Edward Shakin
Attorney for Bell Atlantic Co.
1320 North Court House Road, Eighth Floor
Arlington, VA 22201

Benjamin H. Dickens, Jr.
Gerard J. Duffy
Blooston, Mordkofsky, Jackson
& Dickens
2120 L Street, N.W., Suite 300
Washington, D.C. 20037

Glenn B. Manishin
Christine A. Mailloux
Blumenfeld & Cohen -
Technology Law Group
1615 M Street, N.W., Suite 700
Washington, D.C. 20036

Kent Larsen
Cathey, Hutton and Associates
2711 LBJ Freeway, Suite 560
Dallas, TX 75234

Wayne Leighton
Citizens for a Sound Economy Foundation
1250 H Street, NW Suite 700
Washington, DC 20005

Richard M. Tettelbaum
Citizens Utilities Company
1400-16th Street, N.W., Suite 500
Washington, D.C. 20036

Ronald J. Binz
Debra R. Berlyn
John Windhausen, Jr.
Competition Policy Institute
1156-15th Street, N.W., Suite 310
Washington, D.C. 20005

James Love
Consumer Project on Technology
P.O. Box 19367
Washington, DC 20036

Joe D. Edge
Tina M. Pidgeon
Drinker Biddle & Reath
901-15th Street, N.W. Suite 900
Washington, D.C. 20005

Clint Frederick
Frederick & Warinner, L.L.C.
10901 West 84th Terrace, Suite 101
Lenexa, Kansas 66214-1631

Michael J. Shortley III
Attorney for
Frontier Corporation
180 South Clinton Avenue
Rochester, NY 14646

Charles H. Helein
Robert M. McDowell
Helein & Associates, P.C.
8180 Greensboro Drive, Suite 700
McLean, VA 22102

Charles C. Hunter
Catherine M. Hannan
Hunter & Mow, P.C.
1620 I Street, N.W., Suite 701
Washington, D.C. 20006

David A. Irwin
Tara S. Becht
Irwin, Campbell & Tannenwald, P.C.
1730 Rhode Island Ave., N.W., Suite 200
Washington, D.C. 20036-3101

Daniel L. Brenner
David L. Nicoll
Counsel for the National Cable
Television Association
1724 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Steven G. Sanders
Northern Arkansas Telephone Company, Inc
301 East Main Street
Flippin, AR 72634

Joseph Di Bella
Attorney for the NYNEX Telephone Co.
1300 I Street, N.W., Suite 400 West
Washington, D.C. 20005

Ronald L. Plessner
Mark O'Connor
James J. Halpert
Piper & Marbury L.L.P.
1200 Nineteenth Street, N.W., Suite 700
Washington, D.C. 20036

Roger Hamilton
Ron Eachus
Joan H. Smith
Public Utility Commission of Oregon
550 Capitol St. N.E.
Salem, OR 97310-1380

Pat Wood III
Robert W. Gee
Judy Walsh
Public Utility Commission of Texas
1701 N. Congress Ave.
P.O. Box 13326
Austin, Texas 78711-3326

Anne U. MacClintock
The Southern New England Telephone Co.
227 Church Street
New Haven, CT 06510

Leon M. Kestenbaum
Jay C. Keithley
H. Richard Juhnke
Sprint Corporation
1850 M Street, N.W., 11th Floor
Washington, D.C. 20036

Teresa Marrero
Teleport Communications Group Inc.
Two Teleport Drive
Staten Island, NY 10311

Edwin N. Lavergne
J. Thomas Nolan
Ginsburg, Feldman and Bress, Chartered
1250 Connecticut Avenue, NW
Washington, DC 20036

Stephen G. Kraskin
Sylvia Lesse
Thomas J. Moorman
Kraskin & Lesse
2120 L Street, N.W., Suite 520
Washington, DC 20037

Ronald Dunn
Information Industry Association
1625 Massachusetts Avenue, NW, Suite 700
Washington, DC 20036

Wayne V. Black
C. Douglas Jarrett
Susan M. Hafeli
Paula Deza
Keller and Heckman LLP
1001 G Street, N.W. Suite 500 West
Washington, DC 20001

Margot Smiley Humphrey
Koteen & Naftalin, L.L.P.
1150 Connecticut Avenue, N.W., Suite 1000
Washington, DC 20036

Colleen Boothby
James S. Blaszk
Kevin S. DiLallo
Sasha Field
Levine, Blaszk, Block & Boothby
1300 Connecticut Avenue, N.W., Suite 500
Washington, DC 20036